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Examining Institutional Arrangements for Economic and Social Innovation.

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ABSTRACT

Social entrepreneurship is acknowledged as a viable way to address entrenched or complex social issues. Institutional structures affect how organizations emerge, and the choices and operational mechanisms which may be adopted. Institutions differ in developing and developed countries, and the institutional environment. SEO emergence needs to be examined within the context of specific environments, but the shaping effects of institutions on nascent social organizations are not well established. Comparing the emergence and operation of nascent social entrepreneurial organizations in strong institutional environments in developed countries with their counterparts in developing countries will improve our understanding of how organizations might emerge successfully in institutional voids.

KEYWORDS

social entrepreneurship, social entrepreneurial organizations, SEO emergence, institutions, institutional voids.

INTRODUCTION

Schramm (2010) asserts that all entrepreneurship is social, attributing the improvement of American lifestyle in the 19th century to the inventions of entrepreneurs who raised the quality of life through the consumer market by offering people cheaper access to food, clothing, and shelter. Some nations benefited from the technological innovations of the 19th and 20th centuries and developed a strong economy; however other nations were not able to attain the same level of development. Friedman (1993) in discussing the technology and telecommunications advancements during the early 90s, suggested companies can “locate anywhere, [and] use resources from anywhere to produce a product that can be sold anywhere” (p. 23). Theoretically, companies could operate anywhere as Friedman supposes, but undoubtedly the lifestyles of citizens in some countries and places in the world

are not as easy as those living in more developed nations due to their less prosperous economies and less developed political and societal systems.

While social stability and a vibrant economy have been established in some places, others remain undeveloped. Why might this be? Abromovitz (1986) argues that societal characteristics are the reasons some countries fail to reach the productivity levels of other countries. Market economies operate with due regard to their local institutional context of sociocultural, political, economic, and sometimes religious aspects which influence how economies form and markets develop, and so the institutional infrastructure acts as a shaping agent to facilitate and constrain entrepreneurial activity (Van de Ven, 1993). A growing body of literature demonstrates that institutions build new traditions by legitimising, regulating and standardizing technologies and practices in both the public and private sectors (Henriquez, Verheul, Knaap, & Bischoff, 2001; Horwitch & Mulloth, 2010; York & Venkataraman).

Institutions shape commercial firms, but they appear to operate differently when organizations aim to address entrenched disadvantage, that is social entrepreneurial organizations. For example, Desa (2012) finds SEOs mobilize resources with bricolage rather than via the systematic process adopted in commercial environments. Horwitch and Mulloth (2010) describe mechanisms enabling the development of ecological innovation, and Florek (2011) describes the regulatory mechanisms shaping the formation of new organizational types in the UK. These studies examine developed economies, so we might ask if institutional mechanisms operate in the same way to shape social entrepreneurial activities in developing economies, and if not, then how and why might the mechanisms differ? After examining the limited social entrepreneurship literature in relation to institutional influences, this conceptual paper proposes the need for a study to investigate institutional effects on social entrepreneurial organizations.

SOCIAL ENTREPRENEURSHIP

The study of social entrepreneurship (SE) is multi-dimensional and integrates a wide range of subject areas including sociology, business, ethics, finance, planning, development, and psychology (Nicholls, 2006; Lehner & Kansikas, 2011). Yet the overarching role is still widely debated with scholars and practitioners not yet reaching a consensus on a unifying definition on its nature (Austin, Stevenson, & Wei-Skillern, 2006; Douglas, 2010; Mair & Marti, 2006; Nicholls, 2006). Some scholars view “social” and “entrepreneurship” together as reflecting different aspects of SE (Haugh, 2012; Mair & Marti, 2006) whereas others see the two words an obstacle and an incongruous juxtaposition of actions and intentions (Dey and Steyaert, 2012).

While there is no agreement on an exact definition of SE, there is some consensus on its nature. SE is a proactive process of individuals, groups, or organizations which generate innovation through a social mission to address a social, economic, or environmental problem (Dees & Anderson, 2003; Douglas, 2010; Haugh, 2007; Weerawardena & Sullivan Mort, 2006). Social entrepreneurs are change makers who strive to achieve social value rather than private wealth, pursue and exploit opportunities, continually learn and adapt, act boldly without being limited by lack of access to resources, and improve the beneficiaries in communities they are working with (Dees, 2001; Mair & Marti, 2006). Social entrepreneurs are accountable to the community and the people in the places where they work, and to the financial stakeholders involved with their organization (Austin, Stevenson, Wei-Skillern, 2006). Social entrepreneurs do not act alone, but are embedded in a larger system of social and structural relationships (Mair & Marti, 2006; Mandinyenya & Douglas, 2014). Social entrepreneurs look for new ways citizens can respond to social issues, relying on “cooperation, collaboration, and mutual assistance” relevant to the values and conventions present in a society (Fowler, 2000, p. 647). SE uses innovative approaches that are sustainable and provide social value for the people or community they aim to help (Austin, Stevenson, & Wei-Skillern, 2006; Fowler, 2000; Nicholls, 2006; Seelos & Mair, 2005). SE aims to solve a social problem and bring

about social transformation by acting as a catalyst for change in developed communities or less developed societies (Alvord, 2004; Waddock & Post, 1991).

Social entrepreneurial organizations (SEOs) are organizations that engage in a process of innovation to advance societal benefit and fill community needs that are not addressed by government, nonprofit organizations or commercial firms. They operate as for-profit nonprofit, hybrid, or cooperative organizations, or commercial firms (Kerlin, 2010; Mair & Schoen, 2007; Mair & Marti, 2006; Peredo, 2003; Spear, 2006; Weerawardena, McDonald, Sullivan Mort, 2009, Zahra, Gedajlovic, Neubaum, & Shulman, 2009). SEOs are positioned along a spectrum of organizations (Douglas, 2010). Nonprofit welfare organizations that rely on donations and government and charitable grants and have no commercial focus sit at one end of the spectrum, and at the other end, commercial companies which operate with no philanthropic or social responsibility intentions. Neither of these organizational types are SEOs. SE sit in the space between these two extremes, prioritising the social intention over commercial activities in entrepreneurial social ventures, or corporate social responsibility in philanthropic commercial firms (Douglas, 2010). Corporate social responsibility (CSR) is broadly defined, especially in the US where it includes corporate citizenship, philanthropy, and social involvement through volunteers, for example on the Board of nonprofit organizations (NPOs) (Kerlin, 2006; Crisan & Borza, 2012). While SE is not the same as CSR, CSR could have an important role in aiding, investing, and working with SE ventures by developing new markets and potential customers (Seelos and Mair, 2005).

As organizations operating in the market, SEOs rely on institutions to operate and function well. SEOs exist in developed countries such as US and Europe, and also in Africa, Latin America, and Asia. Each place has different sociocultural, political and economic systems and institutions, but what exactly are the effects of institutions on SEOs and indeed, what are institutions?

INSTITUTIONS

An institution is the discernible behaviour patterns of individuals who are guided by the established and accepted systems of socially constructed roles, conventions, and principles. Scott (2001 p. 49) defines institutions as “multifaceted, durable social structures, made up of symbolic elements, social activities and material resources.” Formal structures and systems, along with informal norms, customs, and procedures define the available modes of action. Shared rules identify categories of social actors, shape their activities, and guide relationships (Barley & Tolbert, 1997). Institutions are the carriers of identities and roles, and are indicative of history and future vision (March & Olsen, 2005). Institutions are resistant to change and transmitted across generations, but institutional arrangements are not predetermined, rather they are modified according to socially interpreted situations. Shaped by institutions, the behaviour and expectations of individuals become ordered and predictable, but the institutional environment is complex, pluralistic, and often divergent. Social arrangements are not simply the result of aggregating individual actions, but rather the synergistic outcome of an appreciation of systemic expectations embedded within institutions.

The institutional environment is the physical site, social setting, cultural arrangements, economic and political circumstances in which the experiences, incidents or matters being examined are located. A society is a compilation of its cultural traditions, social conventions, economic and political institutions. Administrative systems, ideological frameworks, market processes, cultural norms, social rules, and political procedures shape the expectations and actions of citizens, including their ability (or not) to participate. Interactions between organizations and their members are similarly influenced. As a socially constructed activity, the institutional context influences and moulds how people behave, organizations operate, and citizens interact in society. Institutional contexts therefore, are path dependent: history matters because it explains how current situations have been shaped and reshaped by past events into present circumstances.

Kerlin (2006, 2010, 2013, 2009) establishes that localities matter in SE. The political, economic and social history embedded in regions, and the cultural norms, social dynamics and expectations of the people who live in each setting create the nature of SE in each locality. SEOs do not simply exist: they are embedded in societal arrangements: SE does not occur spontaneously, it emerges from a complex societal system embedded in a larger complex system of local, national and global connections among actors (Berkes & Davidson-Hunt, 2007). Social innovation and institutions are close-coupled; each affects the other to shape the future by guiding the behaviour of those who commit to local institutional arrangements. As scholars, we need to examine the complex interplay between societal systems so we might understand the links and connections among actors, and the structural arrangements in which events take place. Structure and agency entwine and merge to produce actions and form the character of SEOs. Behavioural choices are socially constructed within their institutional environments. Actors are affected by, and concurrently producers of change and innovation as SE. The choice to behave as a social change activist is socially constructed within the institutional environment. Appropriate social actions are organised according to norms, functional rules, and values of distinctive institutional subsystems in the political, economic, religious, and kinship sectors in which the actor is situated. Actions are anticipated by observation of complex institutional arrangements. Preferences are constructed from choices made within appreciated arrangements that empower or constrain actions. Thus, we should seek to understand the cross linkages between actors and institutions in different communities, and identify the drivers of change in order to understand how SEOs might emerge, especially in institutional voids.

INSTITUTIONAL VOIDS

Not all places have reliable and predictable institutions. Institutions are well developed in countries with established social and economic infrastructure such as Western Europe, US and UK. In these developed countries, social entrepreneurs have access to technology, human capital, financial markets, business associations, as well as the intermediaries that manage information and potential problems assuring consistency and reliability in protecting assets of individuals and

organizations (Khanna & Palepu, 1999). In the US, SE is carried out within the context of a market economy with emphasis on revenue generation and nonprofit organizations³² (Kerlin, 2010). In Europe, SE emphasizes social benefit, it is classified as an association or cooperative and focuses on human services activities and is carried out within the context of a social economy (Kerlin, 2010). In contrast, there is still much to overcome in order for citizens living in developing countries to move beyond chronic poverty. For example, Rwanda, Nigeria and Ghana have seen some success in their economies, with improvements in the burgeoning Rwandan technology and coffee industries (Terrill, 2012), the film industry in Nigeria which supplies over 1 million jobs (Rice, 2012), yet, many Rwandans suffer from Post Traumatic Stress Disorder following the 1994 genocide, a black market for movies is well established due to Nigeria's film industry not being protected by the government, and, citizens in Ghana have health problems due to the high mercury levels from mining gold and other minerals. SEOs could address some of these issues, but how can they emerge when the institutional environment is deficient?

Mair and Marti (2006, p. 37) note that institutional voids occur when “absent and/or weak institutional arrangements prevent market participation”. Institutional voids lead to a lack transparency which fuels corruption within the system (Herzog, Munir, and Kattuman 2012). Conflicting and contradicting expectations amongst policy makers, religious leaders, and local people occur in institutional voids (Mair, Marti, & Ventresca, 2012). Institutional voids are a problem in developing countries since they preclude disadvantaged, marginalized people or those living with chronic poverty from readily engaging in market based actions and achieving better economic and social living arrangements. An institutional void does not mean that institutions are absent, indeed, developing countries have rich traditions and institutional arrangements, but not those that support independent market activity unless the individual has an established power base (Brown, de Jong & Lessidrenska, 2009). Without well defined property rights, strong enforcement of legal rights, and civil

³² SE in the US is very broad, it includes corporate philanthropy, nonprofits, foundations, and hybrid organizations, which are social welfare providers which include job training for constituents and revenue generation for sustainability (Battilana, Lee, Walker, & Dorsey, 2012)